

DIVIDEND POLICY AND SHARE PRICE VOLATILITY: MALAYSIA EVIDENCE

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By

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I hereby declare that this thesis entitled “Dividend policy and share price volatility: Malaysia evidence” is based on my original research except for quotations and citations that have been duly acknowledged. I also declare it has not been previously or concurrently submitted for any other degree at Universiti Utara Malaysia or other institutions.

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ABSTRACT

The purpose of this study is to examine the relation between dividend policy and share price volatility on firms listed on the Bursa Malaysia Main Board. This study covers a period from 2001 until 2010 with 841 firms included overall sectors in Malaysia. The objectives of this are firstly to explore the dividend trends for the large sample of Malaysian companies that traded on Bursa Malaysia; secondly to examine the relation between dividend policy and share price changes in the Malaysia stock market and the third objective is to identify the influence of dividend payout, dividend yield, size, earning volatility, long-term debt and growth in assets on share price changes in the long run. All the results are tested at 0.05 significant levels. To achieve the objectives, multivariate regression is used to test the hypothesis. From the analysis, the result suggest that dividend yield, dividend payout, size, earning volatility, long-term debt on all firms sample have significant impact on the dividend policy and share price volatility which the findings are consistent with the earlier researcher such Baskin (1989) and Al-Malkawi (2007). On the other hand, growth in asset is insignificant with the share price volatility.

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LIST OF ABBREVIATIONS

BNM	:	Bank Negara Malaysia
CMP	:	Capital Market MasterPlan
Dyield	:	Dividend Yield
Evol	:	Earning volatility
GDP	:	Gross Domestic Product
Growth	:	Growth in Assets
Ltd	:	Long-term debt
Payout	:	Dividend payout
Pvol	:	Price volatility
SC	:	Securities commision
Size	:	Firm size

CHAPTER 1

INTRODUCTION

1.1 Background

In early corporate finance, dividend policy is the policy that company uses to decide how much it will pay out to the shareholder in dividend and it is their choice of whether to pay its shareholder a cash dividend or retain its earning. This topic is yet open for discussion and investigation due to contradiction about the relationship between dividend payouts and stock price volatility. There are different views among researcher regarding the relationship between dividend policy and stock prices. This discussion firstly made by Modigliani and Miller (1958). According to the previous research by M&M, the firm value is irrelevant to dividend policy and the firm's stock price volatility is only based upon its earning ability. John and Williams (1987) and Miller and Rock (1985) stated that the statement by M&M could only be true is the shareholder have symmetric information about the company's financial position but usually managers will pass the information to the shareholder by retaining any negative information until any regulation or financial constraint force to disclose that information. There are issues regarding dividend policy including the linkage between dividend policy and stock price (Allen and Rachim, 1996). By paying large dividends will reduce risk and thus influence the stock price (Gordon, 1963) and it is a proxy for the future earnings (Baskin, 1989).

Furthermore, Jensen and Meckling, (1976) proposed that dividend payments will reduce cost and increase the cash flow. Payment of dividends motivates

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